Paragon Quality, LLC

Financial Statements

December 31, 2013

ParenteBeard

CONFIDENCE THROUGH CLARITY

ParenteBeard

Independent Auditors' Report

Member
Paragon Quality, LLC

We have audited the accompanying financial statements of Paragon Quality, LLC (the "Company") which comprise the balance sheet as of December 31, 2013 and the related statements of operations and changes in member's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Quality, LLC as of December 31, 2013, and the results of its operations, changes in member's equity, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Philadelphia, Pennsylvania
February 5, 2014

Paragon Quality, LLC

Balance Sheet
December 31, 2013

Assets		
Current Assets		
Cash and cash equivalents	$	284,143
Accounts receivable, residents, net of allowance for doubtful accounts of $52,700		128,145
Total current assets		412,288
Resident Funds and Deposits		415,701
Equipment Under Capital Lease Obligation, Net		6,730
Other Assets		700
Total assets	$	835,419
Liabilities and Member's Equity		
Current Liabilities		
Current portion of capital lease obligation	$	2,672
Accounts payable		28,784
Accrued expenses		107,961
Security deposits		2,300
Deferred revenue		97,326
Total current liabilities		239,043
Capital Lease Obligation		3,806
Resident Funds and Deposits		415,701
Total liabilities		658,550
Member's Equity		176,869
Total liabilities and member's equity	$	835,419

See notes to financial statements

Paragon Quality, LLC

Statement of Operations
Year Ended December 31, 2013

Revenues	
Net resident service revenues	$ 5,866,629
Other	29,004
Total revenue	5,895,633
Expenses	
Salaries, wages, and benefits	3,538,958
Dietary	430,390
Utilities	400,251
Maintenance and repairs	377,884
General and administrative	289,200
Housekeeping	35,449
Interest	1,857
Total operating expenses	5,073,989
Net income from operations	821,644
Other income (expense)	
Facility fee paid to NJHMFA	(505,000)
Equipment purchases and repairs	(125,582)
Miscellaneous	(13,675)
Amortization	(518)
Net income	176,869
Member's equity, beginning of year	-
Member's equity, end of year	$ 176,869

See notes to financial statements

Paragon Quality, LLC

Statement of Cash Flows
Year Ended December 31, 2013

Cash Flows from Operating Activities		
Net income	$	176,869
Provision for bad debts		52,700
Amortization of asset under capital lease obligation		518
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Accounts receivable, residents		(180,845)
Accounts payable		28,784
Accrued expenses		107,961
Security deposits		2,300
Deferred revenue		97,326
Net cash provided by operating activities		285,613
Cash Flows Used In Investing Activities		
Other assets		(700)
Cash Flows Used In Financing Activities		
Repayments of capital lease obligation		(770)
Net increase in cash		284,143
Cash and Cash Equivalents, Beginning		-
Cash and Cash Equivalents, Ending	$	284,143
Supplementary Cash Flows Information		
Interest paid	$	1,857
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital lease obigation incurred for equipment	$	7,248

See notes to financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Paragon Quality, LLC (the "Company"), a New Jersey limited liability company which was organized in December 2012. The Company is a single member limited liability company which is owned by Hospicomm Management Corp. (the “Parent”).

The Company was formed to facilitate the operations and financial reporting for Paragon Village (the “Facility”), which is a licensed assisted living facility comprised of 70 independent living units and 82 assisted living units in Hackettstown, New Jersey. The Facility provides residential assisted living services to private residents and to beneficiaries of federal and state funded programs.

The Facility is currently owned by New Jersey Housing and Mortgage Finance Agency (NJHMFA) as the result of NJHMFA taking ownership via deed in lien of foreclosure against the prior ownership of the Facility. NJHMFA is actively seeking a buyer for the facility, and has entered into an informal agreement with the Company to facilitate the operations and financial reporting of the Facility until such time as NJHMFA is able to close on the sale of the Facility. NJHMFA has also entered into a management agreement with Hospicomm, Inc., an entity under common ownership with the Parent, to provide management services for the Facility until it is sold. Management fees are paid directly to Hospicomm, Inc. by NJHMFA.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management’s assessment of individual accounts. The allowance for doubtful accounts is estimated based on a periodic review of individual accounts.

Equipment Under Capital Lease Obligation

Equipment under capital lease obligation is recorded at cost. Equipment under capital lease obligation is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The cost of such equipment was $7,248 and accumulated amortization was $518. Amortization expense was $518.

Net Resident Service Revenues

Net resident service revenue are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued in the period final settlements are determined.

Facility Fee Paid to NJHMFA

In conjunction with the informal arrangement with NJHMFA, the Company makes payments to NJHMFA as cash flows from operations permit. Such payments are considered a facility fee and are recorded as payments are made.

Equipment Purchases and Repairs

The Company expenses equipment purchases and repairs due to the anticipated short-term use of such assets and the implied reversionary interest in such assets resulting from the informal agreement with NJHMFA.

Advertising Expenses

The Company expenses advertising costs when incurred. Advertising costs were approximately $43,000.

Income Taxes

The Company is a single member limited liability company, which is a disregarded entity for federal income tax purposes. As a result, the Company has not recorded any income tax expense in the accompanying financial statements for federal or state purposes. Any income or loss of the Company is included on the income tax returns of the Parent.

Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through February 5, 2014, the date the financial statements were available to be issued.

2. Accrued Expenses

Accrued expenses consist of the following:

Payroll	$ 61,980
Equipment purchases	10,926
Dietary supplies	9,363
Maintenance and repairs	9,168
Contract labor	6,269
Utilities	4,722
Other	5,533
Total	$ 107,961

3. Obligation Under Capital Lease

The Company has entered into a noncancelable capital lease agreement for an automobile. The cost of the leased equipment, less the related accumulated amortization, is included in equipment under capital lease obligation, net in the accompanying balance sheet.

Scheduled future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments are as follows:

Years ending December 31:	
2014	$ 4,081
2015	4,081
2016	340
Total minimum lease payments	8,502
Less amounts representing interest	2,024
Present value of net minimum lease payments	$ 6,478

The present value of net minimum lease payments has been classified in the accompanying balance sheet as follows:

Current maturities of obligation under capital lease	$ 2,672
Long-term debt	3,806
Total	$ 6,478

4. Contingencies

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance.

The Company is subject to lawsuits and claims arising out of its business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse affect on the accompanying financial statements.

5. Commitment

Operating Lease

The Company has entered into certain operating lease agreements; however, due to the nature of its operations and the potential sale of the Facility by NJHMFA in the near term, the agreements generally renew on a month by month basis. Rent expense for such operating leases was approximately $21,600 in 2013, and is included in general and administrative expense in the accompanying statement of operations.

6. Concentrations of Credit Risk

The Company maintains cash accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses for maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.